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Evaluation and additionality

The New Programming Period 2007-2013

**COMMISSION METHODOLOGICAL PAPER GIVING GUIDELINES
ON THE CALCULATION OF PUBLIC OR EQUIVALENT STRUCTURAL SPENDING
FOR THE PURPOSES OF ADDITIONALITY**

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1. Introduction

Article 15 of the new regulation (*Regulation (EC) No 1083/2006*) laying down the general provisions for the Structural Funds retains the basic elements of Article 11 of the previous regulation (1260/99) as regards the principle of additionality. The underlying rationale states that EU Structural Funds may not replace the national or equivalent expenditure by a Member State.

The process of assessment will be threefold.

- Ex-ante assessment included in the drafting of the National Strategic Reference Framework;
- Mid-term assessment in 2011;
- Ex-post assessment in 2016.

The level of expenditure to be maintained in 2007/2013 will be, as a general rule, at least equal to the amount of average annual expenditure in real terms in the previous programming period. This targeted reference level shall be determined in accordance with the general macroeconomic conditions in which the financing is carried out. Account will be taken of specific or exceptional economic circumstances such as privatisations as well as an exceptional level of public or equivalent structural expenditure by a Member State in the previous programming period.

As in the previous regulation, the Commission may revise at the mid-term assessment phase, in consultation with a Member State, the targeted level of structural spending if the economic situation of the Member State has significantly changed meanwhile, resulting in a different development of public revenues.

However, two major innovations are introduced, namely:

- Additionality will only be verified with respect to the Convergence Objective which replaces the previous Objective 1.
- If a Member State fails to prove by the 30th of June 2016 that it has respected the principle of additionality the Commission may proceed to a financial correction in accordance with procedure laid down in Article 99 (5) of Regulation 1083/2006.

2. Eligibility of expenditure

It is essential that only payments under the eligible categories appear in the additionality tables (see point 4). The table is unchanged from the previous programming period and should be completed with outturn spending figures for 2000/2005 (2004/2005 in the case of the 10 new Member States, Bulgaria, and Romania) and forecasts for 2007/2013. The figures should be in million euro at 2006 prices. As a general rule the GDP price deflator is to be used. Any departure from this general rule must be clearly justified. Any Structural Fund spending and national co-financing carried out in the new programming period but committed under previous programmes should be included in the 2007/2013 figures.

Since the eligible categories of public and equivalent spending have normally not been modified Member States should continue to use the existing methodologies for gathering the necessary data.

Types of eligible expenditure

Eligible structural expenditure is classified under three main categories as in the previous period plus a residual category 'Others'.

i) Basic infrastructure:

Capital expenditure on transport, telecommunications, energy, water, environmental protection and health is considered as eligible. "Water" includes any public or similar investment in water supply, i.e. capture (including dams), treatment and distribution of water. Environment includes public or similar investment in drainage networks, treatment and control of urban, agricultural and industrial waste water as well as treatment, control and storage of other urban agricultural and industrial waste. In the 10 Member States which joined the Union in 2004 and from the date of their accession, Romania and Bulgaria, housing projects will be eligible in 2007/2013 programming period¹.

ii) Human resources:

Capital expenditure on education, training, research and development is considered as eligible. Current expenditure in the following fields can be eligible:

- Education: teacher training, total cost of technical secondary education² and higher education, post graduate scholarships;
- Training: total cost of training courses and training of instructors;
- Research and development: *operational expenditure for the provision of services to firms as regards the diffusion of technologies and applied research*; training and specialised training for researchers, technicians and research managers; research scholarships.

¹ (Detailed provisions are laid down in Commission Reg. XXXX/2006).

² Where it would be extremely difficult to isolate the operating costs of secondary technical education from expenditure on secondary education in general, total operating expenditure of secondary education may be used.

iii) Productive environment:

Expenditure aimed to promote activities in the productive sectors, including local economic infrastructures and aid to business, industry and services and tourism. Agriculture and rural development as well as fisheries are excluded as not being eligible areas under Structural Funds.

iv) Others:

The main component of this category should be technical assistance and similar small spending items to the extent that they contribute to regional development. This category has, in the past, been used for some large spending items on the grounds that it is difficult to fit them into the definitions at points i) , ii) , or iii). Where this is genuinely unavoidable, a detailed breakdown must be provided with explanatory notes. Note that this category cannot itself contain a sub-category 'Others'.

Whereas changes in national, regional or local budget nomenclatures have occurred, Member States are invited to supply updated information on the budget lines and chapters used to compile the additionality table together with the most recent data³.

For Member States which are not entirely covered by the Convergence Objective – e.g. this is the case for Czech Republic, Hungary, Slovakia whose capital regions will not be eligible -, the national tables will not include the expenditure for the non-eligible regions. Where regional data are not available, methods of statistical estimation may be used. Member States are invited to justify the choice of statistical criteria – e.g. population shares of eligible regions, GDP or GFCF – to take out non eligible regions.

³ *The full additionality table can be found in annex A*

3. Eligible national or equivalent structural expenditure

In accordance with the Regulation 1083/2006 (Art.2 §5), the concept of eligible national public expenditure covers all public or equivalent structural spending originating from the budget of the State, regional or local authorities which could benefit from Structural Fund (SF) aid even if only part of this expenditure is in fact co-financed by the SF. Similar expenditure includes ‘any contribution to the financing of the operations whose origin is the budget of any public law bodies or associations of one or more regional or local authorities or public law bodies’.

The verification of additionality includes total public expenditure in eligible fields in both budget and off-budget expenditure. Depending on the structure of public finances of every single Member State, the data may therefore include state, regions and municipalities, as well as public enterprises, public bodies and off-budget funds at the national, regional and local level. However, it would be advisable to discuss with the Commission the specific design of the data system e.g. in terms of which public bodies should be included and how to avoid double-counting.

For example, if municipal authorities have significant own resources (from taxation, borrowing etc.) and they are responsible for a significant share of total spending in eligible fields (e.g. education, transport infrastructure...); the data monitoring system should include their final expenditure. Conversely, if municipal authorities are financed by state transfers and their share of total eligible expenditure is fairly low, it may be possible to opt for a ‘top-down’ approach not including data from them in the monitoring system.

Spending by public service bodies having their own independent budget should also be included. Member States should explicitly state, which administrative levels and public enterprises have been included or excluded, motivating their decision.

Special provisions are for:

- **Cohesion Fund.** If a MS is eligible for CF, the national co-financing expenditure in CF projects is considered as eligible and must therefore be included. Cohesion Fund aid, however, must not be included.
- **Community Initiatives and pre-accession instruments.** Since national co-financing will anyhow be included, no separate mention is needed for those initiatives/instruments.
- **Loans from international financing institutions.** The verification of additionality focuses on eligible public expenditure, rather than on the sources of financing. Therefore, expenditure originating from international financing institutions loans may be included in the additionality tables, provided that it is in eligible fields and as long as final payments are made by public authorities. For example, expenditure based on a loan to a regional authority to build a road would be included, but expenditure based on a loan to a private enterprise would not be considered.
- **Public enterprises.** Whereas public enterprises are privatised, their expenditure is excluded from the additionality exercise – not only for the future, but also for the past, in order to neutralise the effect of this spending on the baseline. If a legal decision of privatising a public enterprise is taken by the end of 2005, this should not be included in the ex ante assessment. If any hindrance in completing the sale of the enterprise

arises, the national authorities should inform the Commission that it may, after all, be necessary to include the enterprise in the verification of the additionality principle. The Commission may then request the re-inclusion of the enterprise. In some cases, public enterprises are not fully privatised and the state retains a percentage of shares. The stance of those public enterprises will have to be discussed with the Commission on a case-by-case basis, depending e.g. on the percentage of shares held by the state, and the scale of the public enterprise's eligible expenditure relative to total eligible expenditure. One solution may be to include a percentage of the public enterprise's eligible expenditure

4. Verification of the additionality principle

The additionality principle will be verified at the national level, not at the regional level. This does not mean, however, that expenditure from the regional and local authorities need to be excluded from the eligible expenditure. Where there are distinct regions eligible under different objectives, a regional breakdown of eligible spending would be needed.

In the ex ante phase, the additionality tables will provide the following information for each eligible category of spending at national level and regional level where appropriate. A summary table at national level must in any case be provided. All tables are to be in euro in constant prices. For Member States whose currency is not the euro, the annual average exchange rate of 2005 is to be used.

Annual average payments in reference period in euro at 2006 prices.

Total	Of which: Public companies	CSF/SPD	CSF/SPD	Outside CSF/SPD	Total
National + EU	National +EU	EU	National	National	National
2=	3	4	5	6	7=
4+5+6					5+6=2-4

Annual average payments in 2007/2013 in euro at 2006 prices.

Total	Of which: Public companies	NSRF	NSRF	Outside NSRF	Total
National + EU	National +EU	EU	National	National	National
8=	9	10	11	12	13=
10+11+12					11+12=8-10

Additionality will be deemed to be respected ex-ante if the total of column 13 is equal to or higher than the total of column 7 in the summary national level table.

The second set of numbers above, the figures for 2007/2013, will be incorporated into the NSRF as the target to be achieved at the mid-term and ex-post evaluations of additionality and the comparison with the reference period will have no bearing on these evaluations. The NSRF will also include the timetable for the future assessments of additionality.

The mid-term and ex-post regional and national summary tables will have the following headings:

Annual average payments in 2007/2013, ex-ante, in euro at 2006 prices.

Total	Of which: Public companies	NSRF	NSRF	Outside NSRF	Total
National + EU	National +EU	EU	National	National	National
2=	3	4	5	6	7=
4+5+6					5+6=2-4

Annual average payments in 2007/2010, outturn, in euro at 2006 prices.

Total	Of which: Public companies	NSRF	NSRF	Outside NSRF	Total
National + EU	National +EU	EU	National	National	National
8=	9	10	11	12	13=
10+11+12					11+12=8-10

Annual average payments in 2007/2013, outturn, in euro at 2006 prices.

Total	Of which: Public companies	NSRF	NSRF	Outside NSRF	Total
National + EU	National +EU	EU	National	National	National
8	9	10	11	12	13=
10+11+12					11+12=8-10

Note that, for the mid term and ex-post assessments, annual tables will be required, at the regional level if appropriate, together with the summary table for the period being assessed.

(Annexes A and B provide a detailed description of the additionality report to be prepared by each Member State eligible under the Convergence objective together with standard additionality tables .)

5. Assessment of additionality

The respect of the additionality principle will be verified three times in the next programming period:

Ex-ante verification: It is conducted all through the drafting and definition of the national strategic reference frameworks. Note that before or at the same time as the adoption of the operational programmes, the Commission, following consultation with the Member State, will take a decision covering the level of expenditure guaranteeing compliance with the additionality principle, according to Article 28 of Regulation 1083/2006. The verification process must provide all the necessary supporting information on determining the expenditure level.

At this stage, the Commission and the Member States decide the level of eligible public or equivalent spending to be maintained all over the programming period. The objective is to set realistic but sufficiently ambitious targets for structural public expenditure in order to ensure the additional trait of the Structural Funds intervention. As a general rule, the average annual level of expenditure in real terms shall be at least equal to the level attained in the previous programming period. Account is to be taken of certain specific circumstances as mentioned in Art 15 of the regulation, such as:

- *The general macroeconomic conditions prevailing at the time.* Exceptional movements in the business cycles of a Member State in the past, such as prolonged periods of recession or specific risks for the future should be taken into account;
- *Ongoing or planned privatisations.* Institutional changes in the public sector of a Member State need to be taken into account and may create specific problems as regards the identification of eligible expenditure of privatised enterprises. As explained above, the exclusion or inclusion of public enterprises should be done consistently throughout both periods
- *An exceptional level of public or equivalent structural spending in the previous programming period.* In order to avoid an extensive application of this specific circumstance, the Commission will apply, where appropriate, benchmarks to ensure equal treatment of Member States, such as the level of eligible expenditure in relation to GDP or in relation to population of the eligible regions. In any circumstance, Member States will have to explain why a certain level of eligible expenditure is considered to be exceptional.

The additionality targets should be based on explicitly mentioned assumptions on public revenue, as well as the underlying macroeconomic assumptions, so as to allow for a possible revision of the reference level expenditure at mid term if the economic situation has resulted in developments significantly different from those expected. These assumptions should also be consistent with those included in the stability or convergence programmes.

Besides agreeing upon a given level of annual average eligible public or equivalent spending, the Member State may also choose to negotiate a spending profile with the Commission, determining structural spending for each year that will result in the given final annual average spending for 2007-2013. In this case, the Commission will use this information in the mid-term evaluation.

Mid-term review in 2011

The additionality principle will be considered as “respected” if the annual average of national public eligible expenditure in the years 2007-2010 has reached the level of expenditure agreed on ex ante, or if the spending adheres to a predetermined spending profile agreed upon during the ex ante assessment. In the latter case, the 2007-2010 annual average structural spending of the Member State may be below the annual average for 2007-2013.

The timetable to comply with will be as follows:

- By the 31st July 2011: submission of aggregate and annual tables with final data for the years 2007-2009 and provisional data for 2010.
- By the 31st October 2011: if necessary, methodological corrections based on Commission’s comments.
- 31st December 2011: deadline for submission of any further information.

The mid-term review is also an opportunity for the Member State in agreement with the Commission, to revise the level of expenditure targeted for the rest of the programming period. Such a modification will be conditional on the Member State fulfilment of its obligations in terms of meeting the deadlines stated above.

Ex-post assessment by the end of June 2016

- By the 31st of January 2016: submission of aggregate and annual tables with final data for the years 2007-2013.
- By the 31st of March 2016: if necessary, provision of methodological corrections based on Commission’s comments.
- 30th of June 2016: deadline for submission of any further information required.

Note that if a Member State fails to provide a satisfactory ex-post assessment of additionality by the 30th of June 2016, it will be considered as not respecting the additionality principle.

6. Financial corrections

If, after the submission of all the required information, a Member State is still unable to prove that the additionality principle has been respected either by reference to the level set out in the National Strategic Reference Framework or to a modified level laid down by the mid-term review, the Commission may proceed to a financial correction in accordance with the procedure laid down in Article 99 of Regulation 1083/2006.

Where the Commission makes a financial correction in accordance with Article 99 (5) of Regulation (EC) No 1083/2006, the correction shall be calculated as follows:

- The rate of financial correction shall be obtained by subtracting 3 percentage points from the difference between the agreed target level and the level achieved, expressed as a percentage of the agreed target level, and then dividing the result by 10.
- The financial correction shall be determined by applying this rate of financial correction to the Member State's Structural Fund contribution under the Convergence objective for the full programming period.

If the difference between the agreed target level and the level achieved, expressed as a percentage of the agreed target level is 3 percent or less, no financial correction will be made.

The financial correction shall not exceed 5% of the Member State's Structural Fund allocation under the Convergence objective for the full programming period.

The procedure relative to the calculation of the financial correction will be laid down in **Article 38 of the Commission's Implementing Regulation**.

7. Reporting

The results of the additionality exercise will be accompanied by a thorough description of the methodology adopted and the sources of information. A common format for the additionality reports prepared by Member States is proposed in Annex B.

Article 15 obliges the Commission to publish the results by Member State of the verification of the additionality, including the methodology and sources of information, after the conclusion of each of the three stages of verification. These reports will contain only information which is not confidential.

ANNEX A:
STANDARD TABLE FOR THE VERIFICATION OF
ADDITIONALITY

Table 1: VERIFICATION OF ADDITIONALITY FOR 2007-13 CONVERGENCE OBJECTIVE – EX ANTE VERIFICATION
Summary financial table of public or other equivalent structural expenditure in Convergence objective regions
(EUR millions*, 2006 prices)

1	Annual average in 2007-13 NSRF (ex ante)					Annual average 2000-2005 (actual)**						
	Total	Of which public companies	NSRF		Outside NSRF	Total	Total	Of which public companies	CSF/SPD		Outside CSF/SPD	Total
	Nat. + EU	Nat. + EU	EU	Nat.	Nat.	Nat.	Nat. + EU	Nat. + EU	EU	Nat	Nat.	Nat.
	2= 4+5+6	3	4	5	6	7= 5+6=2-4	8= 10+11+12	9	10	11	12	13= 11+12=8-10
Basic infrastructure												
Transport												
Telecommunications & information society												
Energy												
Environment & water												
Health												
Human Resources												
Education												
Training												
RTD												
Productive environment												
Industry												
Services												
Tourism												
Others												
Total												

* For Member States whose currency is not the euro, the annual average exchange rate of 2005 is to be used.

** 2004-2005 for the 10 new Member States, Romania, Bulgaria

Table 1: VERIFICATION OF ADDITIONALITY FOR 2007-13 CONVERGENCE OBJECTIVE – MID-TERM VERIFICATION
Summary financial table of public or other equivalent structural expenditure in Convergence objective regions
(€millions*, 2006 prices)

1	Annual average in 2007-13 NSRF (ex ante)					Annual average 2007-2010 (actual)						
	Total	Of which public companies	NSRF		Outside NSRF	Total	Total	Of which public companies	NSRF		Outside NSRF	Total
	Nat. + EU	Nat. + EU	EU	Nat.	Nat.	Nat.	Nat. + EU	Nat. + EU	EU	Nat	Nat.	Nat.
	2= 4+5+6	3	4	5	6	7= 5+6=2-4	8= 10+11+12	9	10	11	12	13= 11+12=8-10
Basic infrastructure												
Transport												
Telecommunications & information society												
Energy												
Environment & water												
Health												
Human Resources												
Education												
Training												
RTD												
Productive environment												
Industry												
Services												
Tourism												
Others												
Total												

* For Member States whose currency is not the euro, the annual average exchange rate of 2005 is to be used.

Table 1: VERIFICATION OF ADDITIONALITY FOR 2007-13 CONVERGENCE OBJECTIVE – EX POST VERIFICATION
Summary financial table of public or other equivalent structural expenditure in Convergence objective regions
(€millions*, 2006 prices)

1	Annual average in 2007-13 NSRF (ex ante)					Annual average 2007-2013 (actual)						
	Total	Of which public companies	NSRF		Outside NSRF	Total	Total	Of which public companies	NSRF		Outside NSRF	Total
	Nat. + EU	Nat. + EU	EU	Nat.	Nat.	Nat.	Nat. + EU	Nat. + EU	EU	Nat	Nat.	Nat.
	2= 4+5+6	3	4	5	6	7= 5+6=2-4	8= 10+11+12	9	10	11	12	13= 11+12=8-10
Basic infrastructure												
Transport												
Telecommunications & information society												
Energy												
Environment & water												
Health												
Human Resources												
Education												
Training												
RTD												
Productive environment												
Industry												
Services												
Tourism												
Others												
Total												

* For Member States whose currency is not the euro, the annual average exchange rate of 2005 is to be used.

ANNEX B:
COMMON STRUCTURE OF
ADDITIONALITY REPORTS

The structure proposed below is in the form of a template which will be the basis for the three reporting stages.

1. Executive Summary.

This section should give the main information on the assessment.

1.1. Annual average reference level of national eligible spending and its % increase/decrease

1.2. Amount of EU financing (also as a percentage of total EU expenditure for the period) and national counterpart.

1.3. Total eligible expenditure (EU+ National) broken down for categories.

For instance;

a) Basic infrastructures X%

b) Human Resources Y%

c) Productive Environment Z%

d) Others A%

1.4. EU funding is split between the categories in the following proportions:

2. The process of additionality verification.

This section explains the whole process of additionality verification, including the main results of previous assessments.

3. The evolution of the macroeconomic situation and main macroeconomic indicators.

This section will contain the forecasts for certain selected macroeconomic indicators.

3.1. The recent evolution of the macroeconomic conditions.

3.2. Main macroeconomic indicators.

- *GNI/GDP real growth rates*
- *GNI/GDP price changes*
- *Employment growth rates*
- *General government revenues as % of GNI/GDP*
- *Structural Fund aid as a % of GNI/GDP*
- *National structural spending as % of GNI/GDP*
- *Assumptions concerning the exchange rate between euro and the national currency (if applicable)*

This section applies only to Member States wholly or largely covered by the Convergence Objective

3.3 The expected impact of the NSRF expenditure on the macroeconomic context and indicators.

4. Tables for additionality assessment.

This section should include the tables presented in §3.

5. Conclusions.

This section could contain analytical remarks on the state of the public or equivalent expenditure, its main components, and final comments.

ANNEXES - Methodological annex

This section provides information on the deflators/exchange rate (where applicable) used to get to constant 2006 prices, the budget lines/chapters from which the national spending figures are drawn, at all relevant government levels, together with a list of public enterprises if this spending should be included in the tables.